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GESCO DISTRIBUTING LIMITED

1969 ANNUAL REPORT TO THE SHAREHOLDERS

GESCO DISTRIBUTING LIMITED

Officers:

Irving Shnier

Norman Shnier

Allan Shnier

Cecil Shnier

Philip Shnier

James A. Goddard

Bryan Lonsdale F.C.A.

President,

Chief Executive Officer

Executive Vice-President,

Chief Financial Officer

Vice-President

Secretary

Vice-President

Vice-President

Treasurer

Transfer Agent and Registrar:

The Royal Trust Company

Auditors:

Touche Ross & Co., Toronto

Listed On:

The Toronto Stock Exchange

Head Office:

1965 Lawrence Avenue West, Weston, Ontario.

Directors:

Irving Shnier

Norman Shnier

Allan Shnier

Cecil Shnier

Philip Shnier

I. H. Asper

H. R. Bennett

Toronto

Toronto

Winnipeg

Winnipeg

Toronto

Barrister and Solicitor

Winnipeg

Partner,

Richardson Securities

of Canada

Toronto

To Our Shareholders:

This annual report, which reviews in detail the financial statements and operations of GESCO Distributing Limited for the 12 months ended September 26, 1969, is the first to be issued since the company made the transition from limited private ownership to a public company with hundreds of shareholders.

At the outset, I would like to express my appreciation and a warm welcome to those of you who share the view of the officers and directors of GESCO Distributing that there is a healthy future in the Floor Coverings and Home Furnishings fields.

The period under review has been marked by unprecedented growth and expansion for GESCO Distributing Limited and the company's dominant position in the industry has been strengthened and solidified.

Financial Review

It is gratifying to report that net profits of the company for the period under review were \$617,000, an increase of 31.3 percent over the previous year when the company was under private ownership. This represents a net profit of \$0.60 per share.

Total sales for the year were \$26.7 million, up 32.8 percent over 1968, and earnings, before taxes were \$1,298,000.

Both profits and sales were the highest ever recorded by the company which now has total assets exceeding \$13,400,000

Operations

As you are aware, GESCO Distributing Limited conducts its coast-to-coast business under the name of G. E. Shnier Co., our operating entity.

During the year, your management embarked on a more aggressive policy of refining G. E. Shnier Co.'s operations along lines which can be expected to produce maximum profit. This policy has resulted in significant sales improvement.

The year was also marked by the acquisition of the assets of the Trimont group of floor coverings companies in Montreal. The costs of this consolidation, together with the move into new premises, were a strain on our profits in the period under review but steps have been taken which we are confident will improve our earnings performance in Montreal.

The development of a new distribution centre leased by G. E. Shnier Co., in Vancouver was another significant development during the year.

Subsequent to the year end, the company moved its rapidly-expanding Furniture Products division into a new facility in Toronto where G. E. Shnier Co. is leasing some 750,000 cubic feet. The Furniture Products division had been operating out of the main Toronto warehouse and head office building and the transfer will provide much needed additional space for the expanding Floor Coverings division.

Another development, subsequent to the period under review, was the start of construction of a new distribution centre in Winnipeg



where the G. E. Shnier Co. will occupy some 450,000 cubic feet of space. The area the company will occupy has been specifically designed to enable efficient handling of a larger volume of goods than before.

Outlook

Our optimism regarding the future is based both on the record of performance and annual increases in sales by the company in this and previous years and on forecasts from independent authorities on the overall outlook for the Floor Coverings and Home Furnishings fields.

The Floor Coverings and Home Furnishings markets have been quite buoyant in recent years and the outlook is for a continuation of this trend. This is especially true of the carpet segment.

Sales of carpeting in Canada have been growing at a rate of about 12 to 14 percent per year and thereby doubling every five to seven years. Sales have grown from about 14 million square yards in 1962 to an estimated 32 million square yards in 1969. The 1969 shipments will be worth over \$110 million at factory prices.

Sales of resilient floor coverings, including vinyl-asbestos products have increased from about 12.5 million square yards in 1962 to an estimated 27 million square yards for 1969, worth approximately \$28 million at the manufacturers level.

The Economic Council of Canada, in its sixth annual report titled 'Perspective 1975' forecasts consumer expenditures by categories for the period 1967-1975. Their projections place per capita spending on home furnish-

ings, including furniture and floor coverings, at \$55 in 1975 up 44 percent from the \$38 in 1967. The total market for these items in 1975 is calculated to be \$1.3 billion compared to \$780 million in 1967.

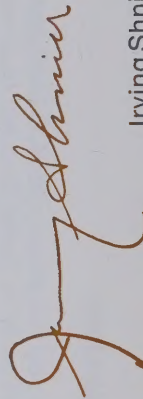
This means that in the eight-year period ending in 1975, the forecast growth rate for sales of our type of products will be 50 percent higher than during the previous eight-year period ended in 1967.

The overall outlook in the Floor Covering and Home Furnishing fields would appear to be encouraging. Indications point to increased sales in the industry generally and GESCO Distributing believes it is in a good position to capture a large share of this predicted growth. However, because of the Government's current restraint policy, there have been strong signs of a levelling out in the economy, and tight money and high interest rates could influence our sales.

In conclusion I would like to take this opportunity of expressing my deep appreciation to members of our staff for their continuing efforts on your behalf.

I would be remiss if I did not suitably thank our many dealers across Canada for their continued loyalty, and also thank our manufacturers whose quality products we distribute.

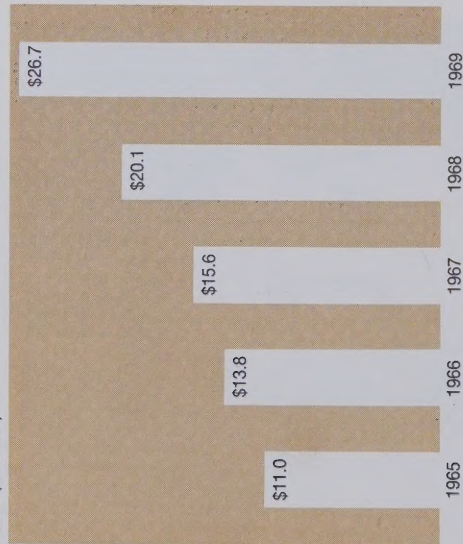
On behalf of the Board



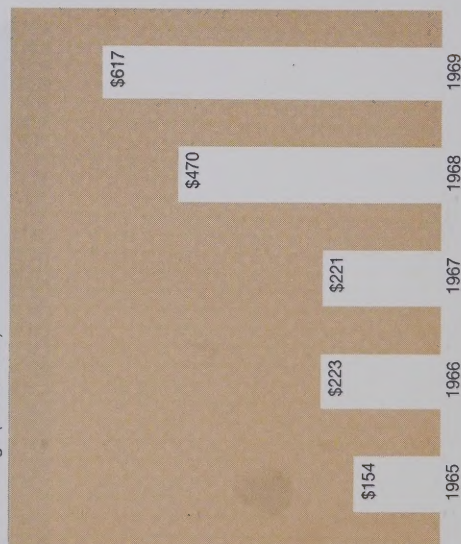
Irving Shnier
President

February 2, 1970

Sales (millions)



Net earnings (thousands)



FINANCIAL HIGHLIGHTS

	1969	1968
Sales.....	\$26,700,000	\$20,100,000
Net Earnings.....	\$ 617,000	\$ 470,000
Earnings per share.....	\$ 0.60	\$ 0.46
Number of shares outstanding.....	1,025,000	1,025,000
Working capital.....	\$ 3,925,000	\$ 1,345,000

GESCO DISTRIBUTING LIMITED

STATEMENT OF INCOME FOR THE FISCAL PERIOD OCTOBER 1, 1968 TO SEPTEMBER 26, 1969 (with comparative pro forma figures for the year ended September 30, 1968)

	1969	1968 (Note 2b)
SALES.....	\$26,675,879	\$20,104,825
INCOME FROM OPERATIONS BEFORE THE FOLLOWING CHARGES.....	\$ 1,425,005	\$ 1,022,174
Depreciation and amortization of fixed assets.....	39,428	37,479
Amortization of deferred charges.....	14,224	—
Amortization of organization and financing expenses, and debenture discount less gain of \$12,800 on purchase of debentures.....	102	—
Interest on long-term debt.....	73,271	25,691
INCOME FROM OPERATIONS.....	127,025	63,170
TAXES ON INCOME — current.....	1,297,980	959,004
deferred.....	589,000	489,000
	92,000	—
	681,000	489,000
NET INCOME.....	\$ 616,980	\$ 470,004
NET INCOME PER SHARE (based on 1,025,000 shares outstanding).....	60¢	46¢

GESCO DISTRIBUTING LIMITED

BALANCE SHEET

AS AT SEPTEMBER 26, 1969

(with comparative pro forma opening balance sheet as at October 1, 1968)

	1969	1968 (Note 2a)
ASSETS		
CURRENT		
Accounts receivable	\$ 6,660,184	\$ 3,891,868
Inventory at the lower of cost and net realizable value	5,788,586	3,241,059
Prepaid expenses and sundry assets	170,120	80,294
	<u>12,618,890</u>	<u>7,213,221</u>
INVESTMENTS (Note 3)	<u>205,933</u>	<u>62,218</u>
FIXED ASSETS at cost less accumulated depreciation and amortization of \$39,428	<u>336,040</u>	<u>193,163</u>
OTHER ASSETS		
Deferred charges less amortization	101,358	—
Organization and financing expenses and debenture discount less amortization	154,005	—
	<u>\$ 255,363</u>	<u>—</u>
	<u>\$13,416,226</u>	<u>\$ 7,468,602</u>
LIABILITIES		
CURRENT		
Bank indebtedness (secured)	\$ 2,779,243	\$ 1,560,399
Accounts payable	5,013,596	3,847,139
Income taxes	589,000	—
Note payable — shareholders (Note 1)	230,129	234,129
Other loans and notes	81,528	226,935
	<u>8,693,496</u>	<u>5,868,602</u>
8% SINKING FUND DEBENTURES SERIES A (Note 4)	<u>1,520,000</u>	<u>—</u>
DEFERRED INCOME TAXES	<u>92,000</u>	<u>—</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 1)		
Authorized — 1,500,000 shares without par value	2,493,750	1,600,000
Issued and fully paid — 1,025,000 shares; 1968 — 775,000 shares	616,980	—
RETAINED EARNINGS	<u>3,110,730</u>	<u>1,600,000</u>
	<u>\$13,416,226</u>	<u>\$ 7,468,602</u>

On behalf of the Board

J. J. Schmier Director

V. Schmier Director

AUDITORS' REPORT

The Shareholders,

GESCO Distributing Limited.

We have examined the balance sheet of GESCO Distributing Limited as at September 26, 1969 and the statements of income and source and application of funds for the fiscal period October 1, 1968 to September 26, 1969. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at September 26, 1969 and the results of its operations and the source and application of its funds for the fiscal period then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that followed by the predecessor partnership.

Toronto, Ontario,
January 20, 1970.

Touche Ross & Co.
Chartered Accountants.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE FISCAL PERIOD OCTOBER 1, 1968 TO SEPTEMBER 26, 1969

SOURCE OF FUNDS

Operations			
Net income			\$ 616,980
Add: Non-cash charges			
Depreciation and amortization of fixed assets	\$ 39,428		
Amortization of other assets	14,326		
Deferred income taxes	92,000		
		<u>145,754</u>	
		<u>762,734</u>	
Issue of securities			
Common shares (Note 1b)	893,750		
8% Sinking Fund Debentures Series A	1,600,000		
	<u>2,493,750</u>		
Less: Debenture discount of \$80,000 and organization and financing expenses	166,907		
		<u>2,326,843</u>	
Working capital of predecessor partnership G. E. Shnier Co. acquired October 1, 1968			
Current assets	7,213,221		
Less: Current liabilities	<u>5,868,602</u>		
		<u>1,344,619</u>	
		<u>4,434,196</u>	
APPLICATION OF FUNDS			
Investments			143,715
Fixed assets net of disposals of \$7,261			182,305
Deferred charges			115,582
Purchase of \$80,000 8% Sinking Fund Debentures Series A			<u>67,200</u>
			<u>508,802</u>
WORKING CAPITAL — SEPTEMBER 26, 1969			<u>\$ 3,925,394</u>

GESCO DISTRIBUTING LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, SEPTEMBER 26, 1969.

1. Organization

(a) GESCO Distributing Limited was incorporated as a public company under the laws of the Province of Ontario on September 30, 1968 and on October 1, 1968 acquired the business of G. E. Shnier Co., a limited partnership, together with its assets and liabilities. The purchase price of \$1,834,129 was satisfied by the issuance of 775,000 shares of the Company for a consideration of \$1,600,000 and a non-interest bearing note payable on demand, with interest after demand at 7½% per annum, of which \$4,000 was repaid during the year.

(b) Subsequently, the Company issued a further 250,000 shares for a cash consideration of \$893,750, of which 200,000 shares were issued pursuant to a public financing and 50,000 shares were issued to employees.

3. Investments

These represent shares in and advances to three 50% owned affiliated companies as follows:

Shares	\$ 61,778
Advances	144,155
	<u>\$205,933</u>

The investment in shares is stated at cost plus the Company's interest in the income less dividends of the affiliated companies since acquisition, and is equivalent to the Company's equity in such companies as shown by their books.

5. Commitments

Lease Obligations
Annual rentals payable under long-term leases in effect as at September 26, 1969 are approximately \$415,000 during each of the years 1970 to 1983 inclusive.

Executive Pension Plan
The unfunded liability with respect to past service amounts to \$572,933 of which \$442,230 is payable in installments on December 15 in each year as follows:

Years 1969 to 1970	\$39,999
1971 to 1973	32,740
1974 to 1979	25,240
1980 to 1984	17,271
1985 to 1987	8,739

and the amount of \$130,703 may be paid in full or in part at any time prior to December 15, 1984 at the discretion of the Company.

4. 8% Sinking Fund Debentures Series A

These are secured by a first floating charge on all the assets and property of the Company and mature on February 1, 1984. Sinking fund payments are required on February 1 in each year as follows:

1971 to 1974 inclusive	\$ 80,000
1975 to 1979 inclusive	\$105,000
1980 to 1984 inclusive	\$135,000

The trust deed securing the Debentures contains restrictions on the payment of dividends on common shares unless the Company is able to meet certain tests set forth in the trust deed.

2. Comparative Statements

For purposes of comparison the following have been shown:

- (a) the pro forma opening balance sheet as at October 1, 1968 which gives effect to the transactions outlined in Note 1 (a) and
- (b) the pro forma income statement for the year ended September 30, 1968 of the predecessor partnership, G. E. Shnier Co., adjusted to give effect to the change from a partnership to a corporate entity.

6. Remuneration of Directors and Officers

The aggregate direct remuneration of the Directors and Senior Officers for the period October 1, 1968 to September 26, 1969 was \$245,000.

THE COMPANY

The growth of G. E. Shnier Co. to its position as one of Canada's largest distributors of brand-name floor coverings and home furnishings has been achieved through consistent planning, aggressive marketing and a firm conviction that quality is more profitable than quantity.

The company began as a small, family-business established in Toronto more than 30 years ago to handle distribution of rubber specialty products manufactured in the United States.

Today the company has distribution centres

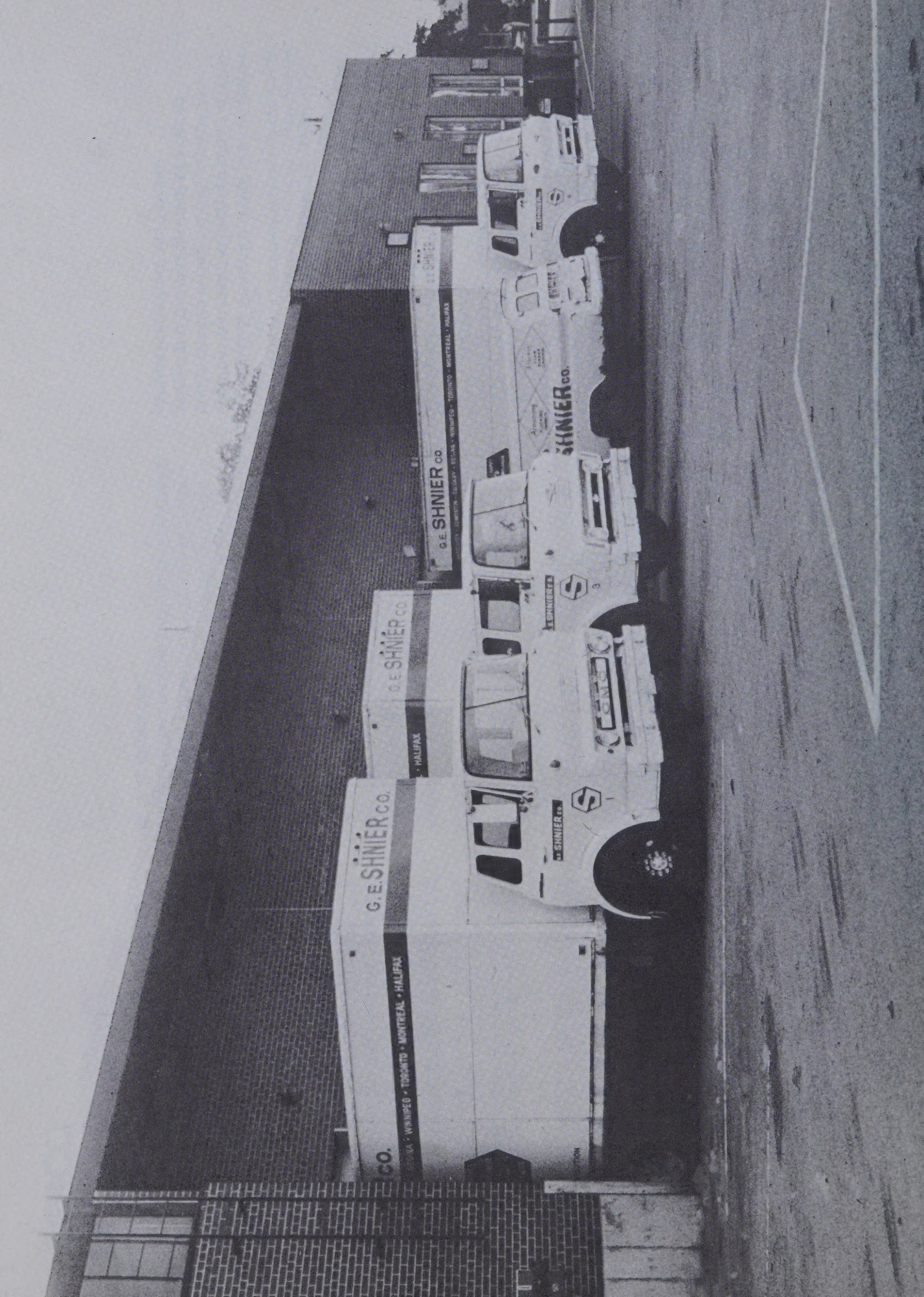


in eight principal cities from coast-to-coast, employs a staff of 300, is an appointed distributor for leading floor covering lines, and had sales in excess of \$26,500,000 for the year ended September 26, 1969.

The primary function of the company is that of a bridge between the manufacturer and the ultimate consumer. The very nature of both the products and the manufacturers in the floor coverings and home furnishings fields combine inevitably to make autonomous distribution the most efficient and effective agent for marketing the products such as those handled by G. E. Shnier Co.

The distribution function of G. E. Shnier Co. began in 1945 when Irving Shnier joined his brother, the late George E. Shnier, in business in Toronto. They founded the G. E. Shnier Co., which remains today as the actual operating entity of GESCO Distributing Limited. The latter became a public company in February, 1969.

In 1966, G. E. Shnier Co. initiated an expansion program that resulted in construction of distribution centres in Regina, Calgary and Vancouver and the enlargement of existing centres in Montreal and Toronto.



G.E. SHNIER CO.
WINNIPEG • TORONTO • MONTREAL • HALIFAX

G.E. SHNIER CO.
HALIFAX

G.E. SHNIER CO.
WINNIPEG • TORONTO • MONTREAL • HALIFAX

G.E. SHNIER CO.

G. E. Shnier Co. has shown continuing growth throughout its history. The company has grown through the addition of new and more profitable lines as well as through the acquisition of companies in related fields. The latter have been melded into the overall G. E. Shnier Co. operations.

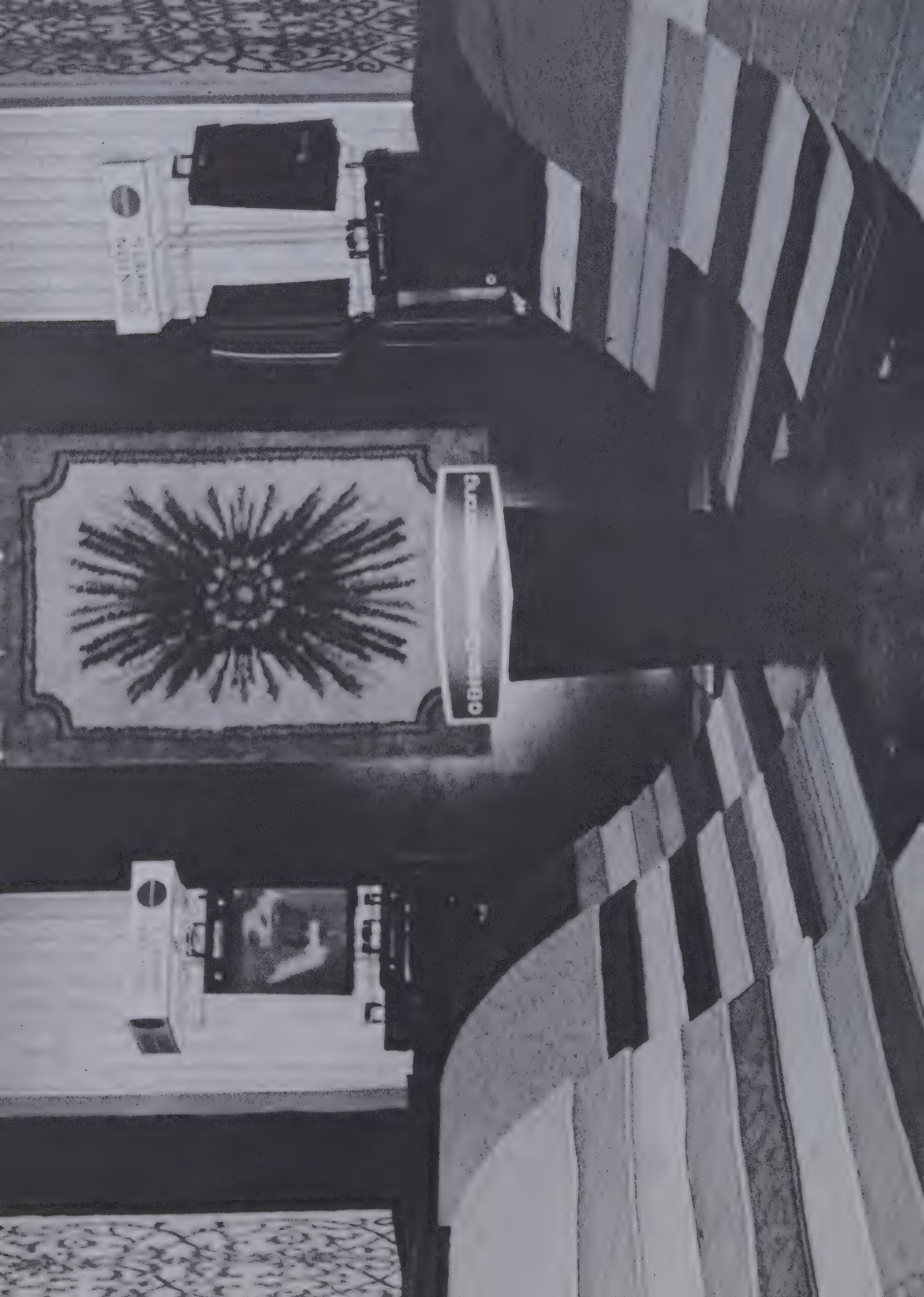
The company continues to seek avenues for further growth, particularly in those areas which are linked with G. E. Shnier Co.'s present operations.

In recent years, the company undertook an acquisition program that included the purchase of George R. Oake Company, a major distributor of floor covering materials with operations in Calgary and Edmonton. The company also purchased the Ceramic Floor and Wall Tile divisions of Shawnigan Floor Coverings and Columbia Distributors Limited, based in Vancouver and Edmonton. This was followed by the purchase of Cardinal Furniture Products, Toronto, which gave the company further inroads into furniture manufacturing with a line of upholstering supplies.

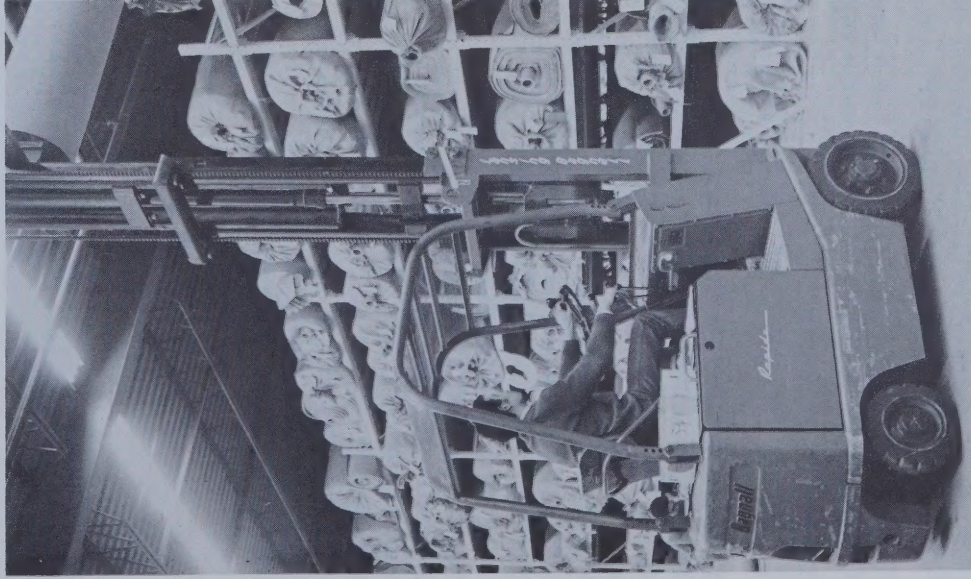
In May, 1969, GESCO Distributing Limited acquired the assets of Trimont Building Supplies and Trimont Carpet Distributors Limited of Montreal. The Trimont group was a long-established distributor of floor coverings in Quebec and its acquisition was a natural extension of G. E. Shnier Co.'s existing operations. Part of the objective was to increase efficiency by eliminating certain duplicated operations, both in facilities and sales territories particularly in eastern Ontario and the Ottawa area. The Trimont operations have now been completely integrated under the G. E. Shnier Co. name.

Trimont sales had been in excess of \$2,000,000 annually and the combination of the two operations is expected to add substantially to G. E. Shnier Co.'s sales and share of the market. The company operates four product divisions each of which maintains distribution agreements on both an exclusive and selective basis with manufacturers in various parts of Canada.

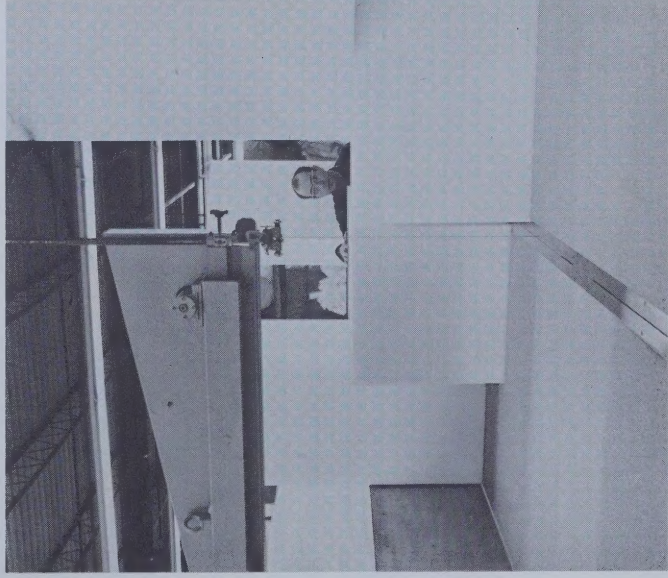




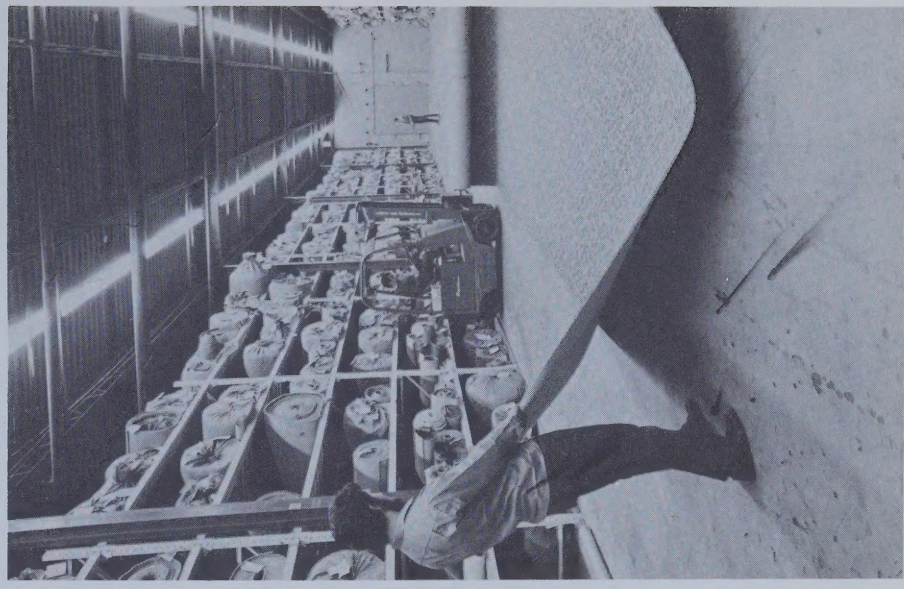
The Floor Covering Division distributes national brand floor coverings such as carpets, vinyl tile and sheet goods, sponge rubber carpet undercushioning and flooring accessories. This division is the largest in the company.



The Furniture Supplies Division fabricates and distributes foam rubber, polyurethane and other cushioning materials for furniture and mattress manufacturers and also provides these manufacturers with a range of upholstery supplies including fasteners, furniture casters, lacquers, adhesives, etc. Growth has been strong in this division, which is the company's second largest. The company is leasing 750,000 cubic feet in a new warehouse to accommodate the division's operations in Toronto. G. E. Shnier Co. distributes plastic and foam rubber which is molded, cut to size and laminated before being sold to manufacturers.



The Hardware Specialties Division is responsible for the distribution of a broad line of hardware specialties, including floor runners, mats and maintenance items such as waxes and cleaners some of which are sold under the company's own brand names. The products are sold in department stores, chain stores and other outlets.



Through its **Ceramic Tile Division**, the G. E. Shnier Co. is the only Canadian company to maintain a full line of ceramic and mosaic floor and wall tiles at all its distribution centres from coast to coast. These products are mostly imported and are sold to contractors and department stores, and specialty stores. The company's field representatives operate from more than 30 cities across Canada including distribution centres in Toronto, Montreal, Winnipeg, Regina, Saskatoon, Calgary, Edmonton and Vancouver. With a total inventory of products of about \$6,000,000 in value, the company is able to supply customers anywhere in Canada within hours of orders being received.

G. E. Shnier Co. continues to employ the most modern management tools and techniques available. The company has now taken delivery of its third computer which, like its predecessors, replaces equipment made obsolete by company growth. The computer is used for supplying management information as well as handling accounts receivable, credit controls and providing internal statistical information.

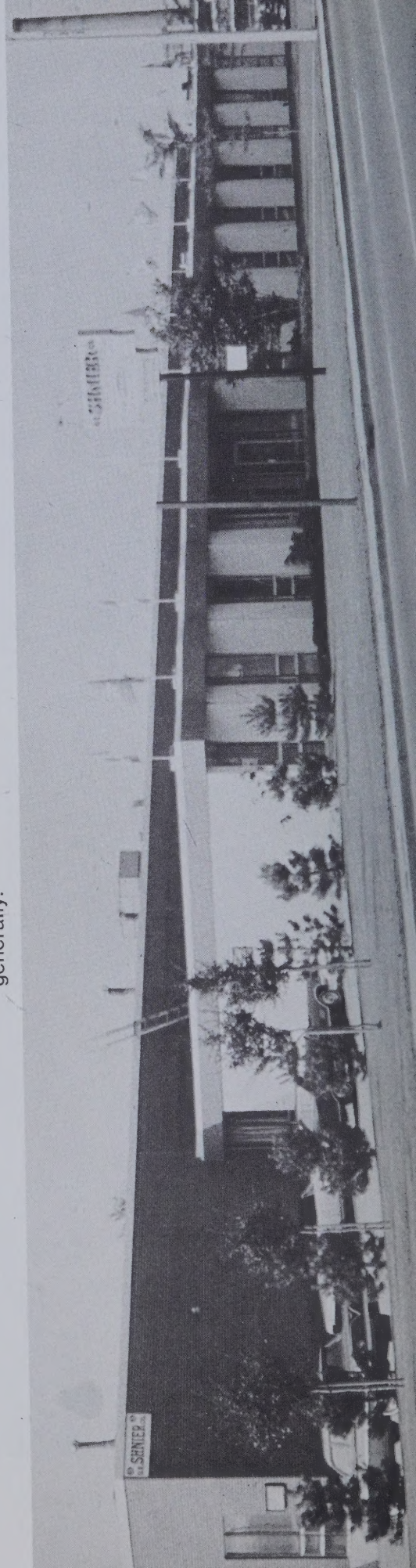
The company operates on a profit-centre basis with each of the four divisions controlled by a divisional manager.

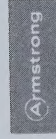
During the past five years the company's sales have increased at an annual rate exceeding 16 percent — a rate which is higher than the rate of growth in the Canadian industry generally.

Engineering consultants were retained in 1969 to examine various aspects of the company's warehousing and fabricating techniques. This was done with a view to minimizing the spiralling costs which face Canadian industry generally and more specifically to determine any areas in the company where cost savings may be achieved.

This study will be of particular value to GESCO Distributing Limited if some of the less favourable predictions about the future of the Canadian economy turn out to be correct.

On the other hand, sales and profit growth of GESCO Distributing Limited appears likely to continue due to the strong prospects for the continuing demand for home furnishings, including floor coverings and furniture.





Floor Coverings, Ceramic Floor and Wall Tile, Hardware Specialty Products, Household Aids, Furniture Cushioning and Upholstering Supplies.

B.F. GOODRICH sponge carpet cushion and furniture cushioning, CROWN ceramic wall tile, CARDINAL mosaics, PROTECTO mats and matting, PROTECTO Carpet Kover.

Carpets, tiles, vinyl sheet flooring, cushioned flooring, rubber and vinyl cove base, stair nosing, installation equipment, adhesives, rubber and vinyl mats and matting, stair treads, foam furniture cushioning.

